

Message Text

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TAGS: EGEN, AS

SUBJECT: RECENT ECONOMIC DEVELOPMENTS - AUSTRALIA

1. MAJOR PENDING ECONOMIC DEVELOPMENT IS 1976 BUDGET, EXPECTED TO BE TABLED IN PARLIAMENT AUGUST 19. MEANWHILE, A RASH OF INDIVIDUAL PRICE AND WAGE DEVELOPMENTS IS ADDING NEW FUEL TO AUSTRALIAN INFLATION. THESE DEVELOPMENTS AGGRAVATE GOA'S PROBLEM IN DEVISING ANTI-INFLATION BUDGET.

2. ON PRICE FRONT, GOVERNMENT APPROVED JULY 25 ACROSS-THE-BOARD INCREASE IN DOMESTIC AIR FARES RANGING FROM 10 TO 20 PCT. THESE INCREASES NECESSITATED BY PAST WAGE AND COST INCREASES AND DO NOT ANTICIPATE PROBABLE FURTHER INCREASES IN FUEL AND NAVIGATION COSTS IN COMING BUDGET. PRICES JUSTIFICATION TRIBUNAL JULY 30 APPROVED 10.5 PCT. STEEL PRICE INCREASE DESIGNED TO RESTORE PROFITABILITY TO STEEL INDUSTRY THEREBY PERMITTING PROJECTED INVESTMENT IN NEW CAPACITY TO PROCEED. THIS RISE WILL TRIGGER SUBSTANTIAL COST INCREASES THROUGHOUT AUSTRALIAN ECONOMY. AUTO INDUSTRY ESTIMATES STEEL INCREASE, PLUS RISING EXCISE TAXES AND RECENT WAGE INCREASE, WILL CAUSE AVERAGE \$A300 PRICE INCREASE IN PRICE OF AUSTRALIAN-BUILT

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PASSENGER AUTOMOBILES IN NEXT SIX MONTHS.

3. GOVERNMENT ANNOUNCED AUGUST 1 SHARP INCREASES IN POSTAL, TELEGRAPH, AND TELEPHONE CHARGES. MAIL RATES RISE AS MUCH AS 80 PCT. WITH SHARP INCREASES ALSO EXPECTED IN TELEPHONE CHARGES.

4. ON WAGE FRONT, ARBITRATION COMMISSION ON JULY 14 GRANTED APPROXIMATE 8 PCT. WAGE INCREASE TO AUTOMOBILE WORKERS, THEREBY DEVIATING FOR FIRST TIME FROM QUARTERLY CIP WAGE INDEXATION APPROACH ADOPTED PROVISIONALLY IN APRIL. OTHER METAL TRADES UNIONS EYEING VEHICLE BUILDERS GAINS HUNGRILY AND SEEKING SIMILAR GAINS ADDITIONAL TO FURTHER INDEXATION. MEANWHILE, WIDESPREAD UNION RELUCTANCE TO CONFINE DEMANDS TO CPI INDEXATION CONTINUES.

5. IN CURRENT BUDGET EXERCISE, TREASURER HAS PUBLICLY ADOPTED GOAL OF RESTRAINING EXPENDITURES SUFFICIENTLY TO LIMIT DEFICIT TO \$A2.5 BILLION. DESPITE PROBABILITY OF POLITICALLY PAINFUL LIMITATIONS ON NUMEROUS HIGHPRIORITY LABOUR GOVERNMENTPROGRAMS, IT IS WIDELY EXPECTED THAT MINIMUM DEFICIT WILL APPROACH \$A3.0 BILLION AND THAT EVEN THIS WILL REQUIRE HEAVY INDIRECT TAX INCREASES AND FORGOING ANY SIGNIFIANT INCOME TAX RATE REDUCTION OR INDEXATION. THIS PROSPECT HEIGHTENS UNION DISTASTE FOR ANY COMMITMENT TO CIP WAGE INDEXATION.

6. COLLECTIVELY, THESE DEVELOPMENTS THROW INTO SUBSTANTIAL QUESTION OPTIMISTIC EXPECTATIONS THAT MARGINAL DROP IN CPI RATE OF INCREASE BETWEEN MARCH AND JUNE QUARTERS PORTENDS DOWNTURN IN AUSTRALIA'S INFLATION RATE.
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